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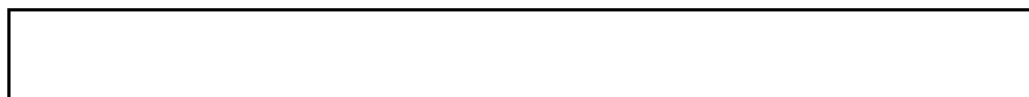
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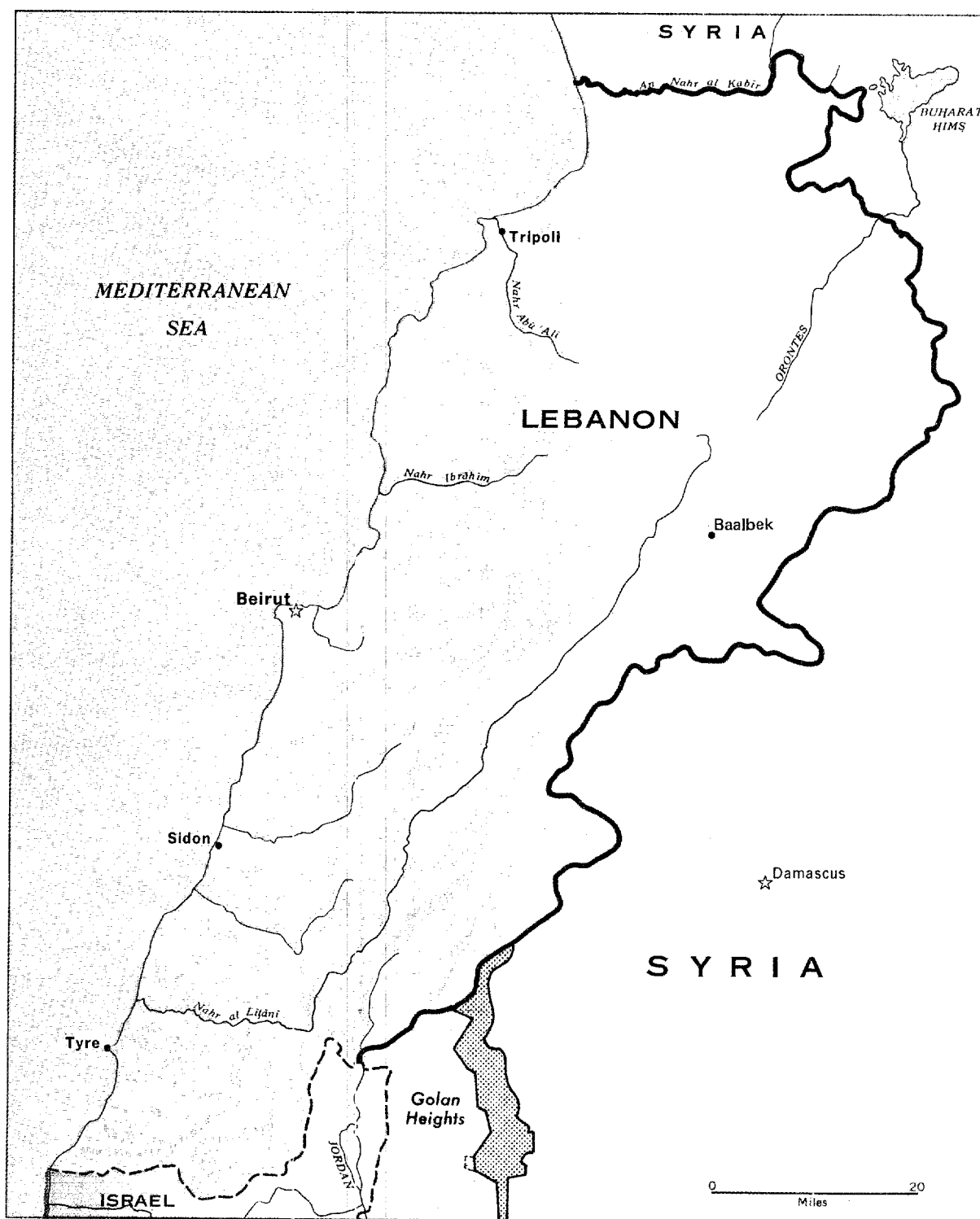


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LEBANON

Prime Minister-designate Rashid Karami told newsmen yesterday that he has reached agreement with Lebanon's political leaders on how to form a new cabinet, and has "high hopes" that he can announce its composition tonight. Karami issued his statement after an unplanned six-hour meeting with President Franjiyah.

According to press reports, Lebanese army units late yesterday began guarding important installations in Beirut. Any use of the army to end the current fighting has until now been opposed by Karami, who represents Muslim and, to a lesser extent, Palestinian and Syrian interests. Karami, this weekend, was at the point of giving up his month-long effort to form a government, however, and may have decided that he had to acquiesce in some—perhaps only token—army involvement in return for political concessions by Franjiyah.

For his part, Franjiyah may have accepted Karami's proposal that he establish a small, "non-political" cabinet that would exclude current leaders of both the right-wing Phalanges Party and the left-wing Progressive Socialist Party. Franjiyah has until now supported the Phalangists in their demand that they be included in any future government.

Muslim and leftist leaders met in strategy sessions over the weekend. They apparently did not abandon their demand for a non-political cabinet, but probably did decide they could agree that it serve only a short time before being expanded to include representatives of all political factions. This, in their view, would be a concession to the Phalangists, and would allow Phalangist leader Pierre Jumayyil to stay out of the government and still claim something of a victory.

Jumayyil told reporters as recently as Saturday that he would not accept such a solution. His party is not now in a strong military or political position, however, and he probably would accept some such formula if Franjiyah and Camille Shamun, leader of the other large predominantly Christian political party, threatened to withdraw their support.

Karami and Franjiyah were pushed toward a compromise by the continued deterioration of the security situation in Beirut. Fighting in the city spread over the weekend from the suburbs toward the main tourist and commercial areas. All roads leading into the city were closed yesterday morning, and the police—in their most ominous report since the troubles began last April—appealed to residents of all areas to remain indoors.

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Violence has also spread outside Beirut. Armed leftist and Muslim groups have effectively shut down the southern port cities of Tyre and Sidon, there have been several bombings in the northern port of Tripoli, and government buildings have been occupied in the eastern town of Baalbek.

The leader of Lebanon's sizable Shia Muslim community—who, like Karami, favors a non-political cabinet—last Friday began a hunger strike as part of a protest against the continuing civil disorder. He has only limited political power outside his own religious group, but his followers form a significant proportion of Beirut's poorer suburban population and could further complicate the security situation if they were to become seriously disaffected and involved in the fighting.

The Lebanese security forces have had little success in checking the spreading violence, or in their more limited effort to eradicate the radical leftist and fedayeen stronghold in the Shiyah district in Beirut. Government forces have been reluctant to leave the relative security of their armored vehicles to flush out snipers, preferring instead to dislodge them with heavy weapons. This has caused considerable property damage, an increase in the number of civilian casualties, and disaffection within the ranks of the security service. This is exactly what the radicals want, and probably played a part in prompting Franjiyah and Karami to paper over their differences.

Fatah and Saiqa, the two largest fedayeen groups, have remained on the sidelines, although Fatah chief Yasir Arafat has been under heavy pressure from his left-wing followers to become involved.

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Yesterday morning, Palestinian leaders were still meeting in strategy sessions with Lebanese officials, and Palestinian forces were continuing to participate with the Lebanese security services in joint patrols of the embattled areas. If the fedayeen stay out of the fighting, despite the provocation they will see in any army involvement, and if Karami is able to announce the formation of a government today, the security situation should improve dramatically. Fighting diminished sharply even when the unpopular military cabinet was announced late last month.

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ARGENTINA

President Peron's decision, announced on Saturday, to rescind recently negotiated labor contracts risks completely alienating the powerful Argentine labor movement. It could lead to a resumption of the general strike that occurred last Friday and to more demonstrations.

In a strongly worded speech, the President criticized organized labor for contributing to declining production and growing inflation. Instead of pay increases ranging up to 130 percent, which the government had previously permitted, Mrs. Peron offered workers a 50-percent increase now and two subsequent boosts of 15 percent each to follow in October and January.

The decision led to the resignation of the labor minister shortly after the speech. Union officials have announced that they will meet today to determine their response.

Wages are only part of the problem. The role of presidential confidant Lopez Rega, who may have convinced Mrs. Peron to annul the contracts, also is a serious issue. The military, as well as labor, are disturbed by his apparent role in perpetuating the government's impasse with labor. Although the military has been hesitant to intervene, it may now press for Lopez Rega's removal. The gravity of the situation could bring the officers to put aside their fear that, deprived of her chief aide, Mrs. Peron might resign.

The possibility that the President may resign or be forced out is doubtless being discussed in political circles. A number of Peronist senators have been meeting to discuss the selection of a new Senate president who would be constitutionally next in line to succeed Mrs. Peron. For the past several months, the post has been left vacant at her insistence. The senators reportedly are conferring with labor leaders, whose views on a potential successor are obviously crucial.

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LAOS

Communist-inspired harassment of the US mission in Vientiane continued over the weekend.

A mixed group of Pathet Lao troops, as well as student and other civilian demonstrators, still occupy the grounds of three American installations they seized early Saturday morning. The installations include the USIS headquarters in downtown Vientiane, and the US embassy's general services compound and nearby American residential housing area on the capital's outskirts. The USIS installation was vacated last week, and all Americans have been safely evacuated from the other two facilities.

According to US officials, the demonstrators—initially estimated to number 50 or so—have plastered highly inflammatory wall posters around all three installations. Some of the posters call for the departure of all "American imperialists" from Laos by June 30 and threaten harsh consequences if that "deadline" is not met.

US officials also report that, for the first time since the Pathet Lao - orchestrated campaign of harassment and intimidation against Americans began nearly two months ago, civilian demonstrators are brandishing weapons. No violence or property damage has occurred thus far.

Protests by the US mission to the coalition government's foreign and economics ministries, which are controlled by the Pathet Lao, to stop the latest anti-American outbursts have thus far fallen on deaf ears. Describing the situation as highly volatile, the US charge on June 28 sought the intervention of Prime Minister Souvanna Phouma. Souvanna ordered communist Economics Minister Soth Phetrasy to disperse the demonstrators, but the order has not been implemented.

Souvanna told the charge that he had no prior knowledge of the demonstrations—which is almost certainly true—and, in his ever-optimistic fashion, dismissed out of hand the notion that they reflected the coalition's desire to bring about a total American withdrawal from Laos.

There is widespread speculation that this weekend's occupation of American facilities in Vientiane may be a prelude to a large-scale demonstration against the US embassy that is reportedly scheduled for today. Souvanna has instructed Soth not to permit any such demonstration, but in almost all cases Soth takes his orders from Pathet Lao coalition authorities.

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At the minimum, US officials expect disgruntled employees of Royal Air Lao to petition the embassy today for the same kind of exorbitant severance pay that the Americans were recently forced to shell out to former Lao AID workers. The charge feels that a very tough confrontation may develop, and that it could provide the spark for a much larger outpouring of anti-American hostility.

As a precaution against the possibility of a major demonstration, the US charge has temporarily dispatched 19 nonessential embassy staffers to Thailand, leaving only 22 official American personnel in Vientiane. Some 57 private American citizens also remain in the Lao capital.

* * * *

Meanwhile, nominal Pathet Lao leader Prince Souphanouvong returned to Vientiane as scheduled on Saturday, following a three-week strategy session of the Lao Communist Party Central Committee in Sam Neua. [REDACTED]

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INDIA

Prime Minister Gandhi apparently has encountered little public resistance so far in the aftermath of the state of emergency she decreed on Thursday.

There were some minor outbreaks of violence but no serious disturbances over the weekend. As press censorship becomes more efficient, it will be more difficult to ascertain the situation in the countryside, though rural areas are traditionally less volatile than the cities.

A government press spokesman yesterday denied press reports that the chief justice of the Supreme Court—a Gandhi appointee—had resigned.

Major opposition parties say they will proceed with their civil disobedience campaign this week, but the likelihood of arrests is expected to keep participation low. Moreover, persons arrested during the emergency cannot appeal to the courts for release. This new prohibition, which was announced on Friday, is certain to discourage dissenters. Well over 1,000 persons have been arrested since Thursday, and the opposition leaders still at large probably have gone underground.

Cabinet members are now taking more visible roles in administering the emergency regulations. A special committee consisting of the ministers of agriculture, defense, interior, and law has been formed to review the situation on a daily basis. Foreign Minister Chavan announced there would be no significant changes in foreign policy. Agriculture Minister Ram assured the public that the food supply situation was improving.

Ruling Congress Party members of parliament were sent to their districts during the weekend to explain the government's actions and to help organize support for Mrs. Gandhi. They will convene in New Delhi on Tuesday to report their findings.

The educated classes probably are inclined to disbelieve Mrs. Gandhi's argument that Indian democracy was imperiled by extremists. Students, in particular, are likely to discount her conspiracy rationale and will probably try to organize resistance in coming weeks. The lower classes, however, probably are ambivalent about Mrs. Gandhi's actions and will look for results from her promise on Friday to introduce economic measures soon to alleviate the hardships of the poor.

In a follow-up to this promise, Mrs. Gandhi yesterday ordered price controls on essential commodities. These controls are probably an attempt to retard the seasonal round of price increases that normally begin at this time of year when the monsoons

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set in and food stocks begin to run low. In the near term, the program is not likely to be very effective, since it depends only on local leaders to assure that shopkeepers comply. No formal price administration machinery has been set up.

If the situation remains calm in July, Mrs. Gandhi reportedly plans to reconvene parliament in early August to ratify the emergency proclamation. The constitution requires parliamentary approval within two months of the proclamation.

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ISRAEL

The Israeli cabinet decided yesterday to seek "certain clarifications" in Washington concerning proposals for another interim agreement with Egypt. Although no details of the cabinet's discussion have emerged, several ministers reportedly planned, in order to salvage the talks with Egypt, to press Prime Minister Rabin to reassess his position that Israel must retain the eastern ends of the Gidi and Mitla passes.

The communique issued after the four-hour cabinet meeting also said "clarifications" would take place in Israel. The Prime Minister met yesterday with leaders of the rightist opposition Likud bloc and reportedly will do so again today. Foreign Minister Allon instructed Ambassador Dinitz to return from Washington within a few days to report on his discussions with US officials concerning the talks with Egypt.

Yesterday, the Israeli press roundly denounced what it regards as US pressure to force Tel Aviv to accept Cairo's terms for another interim agreement. The US, one paper charged, is presenting Israel with a virtual ultimatum either to give up the eastern end of the Sinai passes or to risk "a serious political confrontation with Washington."

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PORTUGAL

Portugal's leaders have announced a structural reorganization of the ruling Armed Forces Revolutionary Council. The changes seem designed, at least in part, to improve government efficiency. It is too soon to determine whether the changes will affect the power balance between moderates and radicals.

After a night-long session, the Revolutionary Council issued a statement early on Saturday saying it will create a central committee, with subordinate political, military, and executive committees. General policy lines will still be decided by the full Council, but the central committee will make decisions on current matters and make recommendations to various government bodies.

The new central committee, which is to handle day-to-day Council business, will be composed of 11 senior members of the Council. President Costa Gomes, Prime Minister Goncalves, security chief Otelo de Carvalho, and Admiral Rosa Coutinho will be joined on the committee by the chiefs of the general staffs of the three military branches. The four others, who will also be members of the political committee, were not named.

The political committee will maintain contacts with the political parties, as well as with unions and "mass organizations." The Council statement does not discuss the functions or list the members of the military or executive committees.

The Council statement also announced approval of two decree laws—one creating a judicial police service under the Council's supervision, and another establishing regulations for a revolutionary military tribunal to judge those implicated in the coup attempt of March 11. The opening of the next session of the Armed Forces Movement General Assembly was set for July 8.

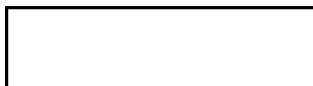
Another decree law promulgated recently prohibits members of the government from making statements in disagreement with government policy and requires any member of the government to obtain the prime minister's approval before traveling outside the country. These measures appear directed against Socialist Party leader Mario Soares, who has conducted a public discussion of government policy and made frequent trips to other European capitals to drum up support for his party.

The Revolutionary Council has also approved a decree law providing sanctions against military personnel who contribute to discord within the armed forces, commit or encourage acts of violence, or disrupt public order. This law is not only aimed at combating indiscipline in the armed forces, but also is probably directed at certain military units that have shown sympathy with radical leftist groups.

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NORTH KOREA - US

North Korean propaganda is, predictably, condemning the statements of Defense Secretary Schlesinger and President Ford last week that the US would not rule out the use of nuclear weapons in another Korean war. In a rare Foreign Ministry statement issued on June 24, Pyongyang labeled the comments "nuclear blackmail" and stated that the attempt to frighten the Korean people is a sign of US vulnerability. The statement claimed that North Korea has already made it clear that it has no intention of invading the South. Subsequent commentary—broadcast in both English and Korean—has followed the same line.

Pyongyang has not suggested that the US is bluffing, but has instead charged that Washington is reinforcing its military position in Korea as part of its post-Vietnam strategy. A similar theme was voiced immediately after the fall of Indochina. Pyongyang hopes that its growing diplomatic clout will eventually force US troops out of Korea, but for the near term it apparently believes that the US has strengthened its commitment to Seoul.

Thus far, the North Koreans have not reacted to the US proposal submitted to the UN on June 27. Washington has offered, together with Seoul, to dissolve the UN Command in Korea by January 1, 1976, if alternative armistice guarantees can be worked out before then. Pyongyang has rejected such offers in the past.

Peking, a signatory to the armistice, has not yet commented on the US - South Korean proposal or the statements concerning nuclear weapons. A Tass article of June 27, issued in English, did report the proposal, characterizing it as an attempt to "legalize" the US presence in Korea. It did not reject the proposal, and it made no mention of the condition that a new armistice be substituted.

A Soviet domestic broadcast, also of June 27, notes the statement of a White House spokesman that the US has not changed its nuclear policy, but makes no specific reference to Korea. Neither China nor the Soviet Union has replayed North Korean commentary on the nuclear question.

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CHINA

A French news agency report from Peking that quoted a Chinese Politburo member as saying that Premier Chou En-lai had officially left the hospital was incorrect. The Chinese news agency reported that Chou met President Bongo of Gabon in a hospital on Saturday.

Most of Chou's meetings with foreign visitors have taken place in a hospital for the past year. An exception to this was his meeting on June 26 with a visiting Chinese-American professor. A picture of the meeting showed the two men outdoors, and the Chinese announcement dropped the reference to the hospital. Most visitors have described the meeting place as more like a rest home or villa than a hospital.

President Bongo, meanwhile, left China yesterday without meeting Chairman Mao. Bongo is the first head of state Mao has failed to meet since returning to Peking in April. The Chairman has met Bongo before, and Gabon is not a high-priority country in Chinese foreign policy. A more important clue to Mao's status—physical or political—will be whether he meets Thai Prime Minister Khukrit, who is visiting China this week to establish diplomatic relations.

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CEMA

Energy and raw material issues dominated the 29th CEMA ministerial meeting in Budapest from June 24 to 26.

The East Europeans, who have been hard hit by Western inflation and Soviet price hikes, were clearly seeking assurances on future Soviet raw material deliveries. Hungarian Premier Lazar said Budapest is expecting "much assistance" from Moscow for fuel and power supplies. In apparent response, Kosygin said Moscow is providing Eastern Europe with additional raw materials and implied that increasing investments in this field would benefit its allies.

The participants formally endorsed a so-called CEMA "multilateral integration plan" for ten joint investment projects during 1976-80 at a cost of \$13 billion. Many of the ventures in the "plan" already are in progress, and no new projects were announced. Kosygin's contention that multilateral plans do not conflict with national economic development suggests that there was controversy among the participants on this subject.

A bland communique masked any specific differences. It was silent on CEMA's next move to establish a dialogue with the EC, noting only that "other countries and international organizations" had a "growing interest" in ties with CEMA. The document acknowledged that closer coordination of national five-year plans that begin in 1976 continues to encounter "problems."

The session also "worked out" measures to "improve" the legal underpinnings of CEMA authority, a subject that undoubtedly sparked controversy. The Romanians would be certain to resist any language that in their view gives CEMA or its organs supra-national authority.

Following the Budapest session, CEMA secretary Fadeyev stressed the familiar theme of the organization's openness and said that an announcement would be made in July of Iraqi participation in some joint projects. He also said that an accord with Mexico is expected in the "near future" and that Colombia has inquired about cooperation possibilities.

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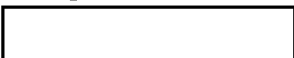
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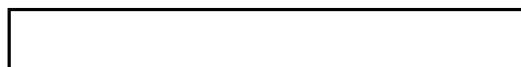
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